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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 000511

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TAGS: [EINV](#) [EAIR](#) [ECON](#) [PREL](#) [CH](#) [TW](#)

SUBJECT: CROSS-STRAIT ECONOMIC RELATIONS - SCHOLARS SEE  
CHEN MOVING ON CHARTER FLIGHTS BUT NOT INVESTMENT  
RESTRICTIONS (C-AL5-01182)

REF: A. TAIPEI 8

[1](#)B. TAIPEI 9

[1](#)C. TAIPEI 55

[1](#)D. TAIPEI 220

Classified By: AIT Acting Director David J. Keegan, Reason 1.4 d

Summary

[1](#)1. (C) In recent discussions, Taiwan scholars of cross-strait economic relations agreed that it is difficult to predict exactly how President Chen plans to implement his call for "active management" of cross-strait economic relations. They conclude that his recent moves are an effort to consolidate control of the cross-strait debate. At the same time, Chen has limited ability to control the cross-strait economic dynamic. The scholars believe that Chen will allow cross-strait discussions of charter flights to proceed, but felt that further liberalization of investment restrictions was less likely. End summary.

[1](#)2. AIT/T met recently with Taiwan scholars to learn their views on what impact President Chen Shui-bian's January 1 call for "active management" would have on cross-strait economic relations. These academics included Chen Tain-jy, a professor of economics at National Taiwan University (NTU) and until September 2005 president of the Chung-hua Institution for Economic Research (CIER); Kung Ming-Hsin, Director of the Mainland Affairs Department at the Taiwan Institute of Economic Research (TIER); Tung Chen-yuan, a professor of economics at National Chengchi University (NCU); and Lo Chih-cheng, executive director of the Institute for National Policy Research (INPR).

Lack of Clarity

[1](#)2. (C) The scholars told AIT/T that it was difficult to predict at this time what impact the new "active management" slogan would have on Taiwan's policy. NTU's Chen said that he had spoken to some of President Chen's

closest advisors and they themselves did not know what he intended to do. TIER's Kung and NCU's Tung both pointed out that President Chen's call for "active management" had not been accompanied by any details about its implementation. NTU's Chen also emphasized that President Chen is not as ideological as Lee Teng-hui and his handling of cross-Straits relations would depend on inter-party politics and the attitudes of his supporters.

#### Chen Seizing Control...of What He Can Control

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13. (C) INPR's Lo argued that President Chen was putting the brakes on those areas of cross-Straits relations that were still under his control. These include investment policies and the pace of discussions on cargo and weekend passenger charter flights. According to Lo, one of Chen's key goals is to send a message to the PRC that they need to deal with him on cross-Straits relations. NCU's Tung commented that Chen has dominated cross-Straits politics for the last six years and is showing that he will continue in the driver's seat for the remainder of his term.

14. (C) However, the scholars noted that Chen's control is limited. INPR's Lo said that cross-Straits economic relations in general will continue to deepen, and Chen can only influence the speed of the process across the various sectors of Taiwan's economy. He added that this was particularly true in the case of direct air links. As TIER's Kung put it, direct links are no longer a yes-no question; the question is how quickly they are opened. He commented that even Lee Teng-hui supports direct links. (Note: Lee Teng-hui has said that he supports direct links under certain conditions such as a state-to-state

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relationship. End note.)

15. (C) Lo argued that Chen came to a crossroads after the DPP's disappointing performance in the 2004 Legislative Yuan elections. During his final two years in office, Chen must decide whether to seek support from the pan-Blue parties that control the Legislative Yuan (LY) or build a legacy based on those initiatives he can implement under his own authority without legislative approval. Chen's move to seize control of the cross-Straits agenda is an indicator that he has decided to go it alone, Lo suggested.

#### Chen Will Not Stop Charter Flight Discussions

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16. (C) The academics agreed that President Chen would permit industry-led discussions of cross-Straits cargo and weekend passenger charter flights to proceed. However, NCU's Tung and TIER's Kung were uncertain that the PRC would be willing to continue discussions. Tung commented that with the approach of legislative and presidential elections, 2006 would be the last year the two sides would be able to reach agreement on the issue. Kung argued that the PRC would find excuses to delay progress toward an agreement, partly because direct flights would improve Taiwan's competitiveness as an investment destination compared to Shanghai.

#### Investment Restrictions May Stay in Place

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17. (C) The scholars argued that controls on Taiwan investment in the PRC would not be loosened soon and could actually be tightened. Kung and NTU's Chen both support tighter control of cross-Straits investment. Kung suggested that investment liberalization had already taken place too quickly. Chen argued that the Ministry of Economic Affairs Investment Commission, which approves Mainland investment, should be reorganized and expanded with more professional staff. He said the commission needs

to develop a more methodical mechanism with clear criteria for assessing the impact of investment proposals across a range of indicators. Chen and INPR's Lo both suggested that Vice Premier Tsai Ing-wen would be a driving force in tightening control of Taiwan's investment in the PRC. Chen commented that the old policy of "active opening, effective management" had been Tsai's "baby." He said that because management of cross-Strait investment had been inadequate, she would be eager strengthen it under the new "active management" policy.

Comment - Chen Can Go Slow but Can't Go Back

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18. (C) As the scholars noted, Taiwan and the PRC will continue to grow closer economically. There is broad support for further opening of some sectors, especially direct air links. The KMT will continue trying to use public sentiment to pressure Chen. Political factors like these will continue to move Chen forward in opening up specific areas of economic relations with the PRC, particularly charter flight discussions. However, in other areas such as investment controls, where Chen has more maneuverability, we should expect little or no progress in the near future. End comment.  
KEEGAN